

## Message Text

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ORIGIN XMB-04

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 OPIC-06 SP-02

CIEP-02 OMB-01 /060 R

66610

DRAFTED BY: XMB:JHGAINER

APPROVED BY: EB/IFD/ODF:RASWART

XMB:WCSAUER

EA/TB:JAKLEMSTINE (INFO)

----- 124063

R 032154Z OCT 75

FM SECSTATE WASHDC

TO AMEMBASSY BANGKOK

UNCLAS STATE 236468

FOR WOLFE, EXIM

E.O. 11652: N/A

TAGS: ETRD, US, TH (STAVE, THOMAS C.)

SUBJ: SIAM KRAFT, EXIM CREDIT 2336 (SKPC)

1. UNFORTUNATELY, EXIM/OPIC WILL NOT HAVE CLEARANCE ON  
TELEX DEALING WITH MANAGEMENT CONTRACT UNTIL OCTOBER 7. WILL  
SEND PROMPTLY AS SOON AS CLEARANCE RECEIVED. IN MEANTIME, FOR  
YOUR INFORMATION, SOME OF PRINCIPAL POINTS FOR CONSIDERATION  
ARE: (1) CREDITOR CONTROL - AS UNDERSTOOD HERE, SCC'S PRINCIPAL  
CONCERN IN THIS MATTER IS TO AVOID HAVING TO DEAL WITH MORE  
THAN ONE SOURCE OF SKPC AUTHORITY. SUGGEST THIS PROBLEM CAN BE  
MET BY PROVIDING IN MANAGEMENT CONTRACT THAT, ALTHOUGH SKPC WILL  
BE RESTRICTED BY COVENANTS WITH CREDITORS, WHICH WILL PERMIT  
SPECIFIED ACTIONS ONLY WITH CONSENT OF THE CREDITORS, SUCH  
CONSENT WILL BE CONCLUSIVELY PRESUMED IF BOARD APPROVAL IS GIVEN  
UNLESS AND UNTIL CREDITORS DECLARE AN EVENT OF DEFAULT. THIS  
WILL REQUIRE CAREFULLY DRAWN RESTRICTIVE COVENANTS IN AGREEMENT  
BETWEEN CREDITORS AND SKPC, BUT AS LONG AS SKPC BOARD ACTS  
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WITHIN THESE COVENANTS OR GETS CONSENT OF CREDITORS FOR ANY

DEVIATION, NO DEFAULT WILL OCCUR. IN MEANTIME, SCC CAN RELY ON ALL APPROVALS GIVEN IT BY BOARD ALONE. THIS SHOULD SATISFY SCC. IT DOES NOT, OF COURSE, ANSWER PROBLEM OF THAI CREDITORS WHO ARE RELUCTANT TO SERVE ON BOARD UNLESS EXIMB/OPIC DO ALSO

EXIMB/OPIC HAVE DIFFERENCE OF OPINION WITH THAI CREDITORS AS TO LIABILITY ARISING FROM CREDITOR ASSUMPTION OF CONTROL OF SKPC IN ANY EVENT, BUT, IN ADDITION, EXIM/OPIC IS IN DIFFERENT POSITION THAN THAI CREDITORS AS U.S. GOVERNMENT AGENCIES WHICH ARE MORE VULNERABLE AS FOREIGN ENTITIES IN THAILAND AND ALSO SUBJECT TO RESTRICTIONS OF THEIR OWN STATUTES, AS WELL AS BEING SUBJECT TO U.S. LAW; HENCE, SUITS IN U.S. AS WELL AS IN THAILAND. ALSO, THERE ARE SERIOUS POLICY CONSIDERATIONS FOR EXIM/OPIC TO BE IN EFFECT ACTING AS SKPC IN MATTERS, SUCH AS INTER ALIA: SETTLING OR CONTINUING PENDING LAW SUITS BY AND AGAINST SKPC. TO DEAL WITH THESE MATTERS SOLELY AS CREDITORS OF SKPC WOULD BE MUCH LESS DIFFICULT. AS TO RECONCILIATION OF DIFFERENT VIEWS OF EXIM-OPIC AND THAI CREDITORS, SUGGESTION IS THAT THAI CREDITORS PROCEED AS PLANNED WITH SHARE PROXIES AND BOARD MEMBERSHIP, THAT THEY ALSO SERVE ON CREDITORS' COMMITTEE WITH EXIM/OPIC, THAT BOTH GROUPS WORK IN TANDEM AND THAT THE AGREEMENT BETWEEN SKPC AND CREDITORS CONTAIN RESTRICTIONS ON SKPC AS ABOVE INDICATED. SINCE ALL CREDITORS WOULD BE WORKING TOGETHER ON CREDITORS' COMMITTEE AND SINCE SKPC BOARD WOULD PRESUMABLY CONSULT WITH CREDITORS' COMMITTEE ON ALL ACTIONS, IT IS UNLIKELY THAT ANY DIVISIONS WOULD OCCUR THAT WOULD NOT OCCUR BETWEEN CREDITORS ACTING SOLELY AS BOARD MEMBERS. THE AGREEMENT BETWEEN CREDITORS AND SKPC OUGHT TO BE APPROVED BY SKPC'S SHAREHOLDERS' MEETING AND IT IS STRONGLY SUGGESTED THAT SHAREHOLDERS' MEETING BE DEFERRED UNTIL BOTH CREDITOR/SKPC AGREEMENTS AND MANAGEMENT AGREEMENT ARE SUBSTANTIALLY IN EXECUTION FORM.

2. DEBENTURES - BEFORE AGREEING TO SUGGESTION PUT FORWARD ON HANDLING OF DEBENTURES, WE NEED TO KNOW HOW MUCH DEBENTURES ARE HELD BY SCB AND OTHER CREDITORS AND WHY OUR SUGGESTIONS NOT ACCEPTABLE, PARTICULARLY IN VIEW OF ORIGINAL SUBORDINATION OF DEBENTURES.

3. NEW SHARES FOR SCC - SINCE THESE SHARES WILL END UP WITH SCC  
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AND THE NET EFFECT OF THE TRANSACTION IS THAT THE CREDITORS' DEBT WILL BE PAID IN AN AMOUNT EQUAL TO THE INCENTIVE FEE, IS THERE ANY REASON WHY THE SHARES CANNOT BE ISSUED DIRECTLY TO SCC BY SKPC  
IN PAYMENT FOR ITS FEE WITHOUT GOING THROUGH  
THE PROCEDURES OF CONVERTING CREDITORS DEBT INTO EQUITY?

II. CRAFTON AND HERRMEYER UNABLE TO COME TO BANGKOK PRIOR TO

WEEK OF OCTOBER 20, BUT DO PLAN TO MAKE INVESTIGATION OF BLEACHED  
BAGASSE PULP PROCESS BEFORE ARRIVAL. THEIR STUDY WILL PROCEED  
SIMULTANEOUSLY WITH DRAFTING OF AGREEMENTS SO THAT TARGET DATE FOR  
DECISION IN EARLY DECEMBER REMAINS UNCHANGED. GAINER PLANS  
ARRIVE APPROXIMATELY SAME TIME WITH DRAFT DOCUMENTS.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** AGREEMENTS, CONTRACTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 OCT 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975STATE236468  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** XMB:JHGAINER  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750345-0549  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751086/aaaaczdc.tel  
**Line Count:** 121  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN XMB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** buchant0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 06 NOV 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <06 NOV 2003 by ThomasVJ>; APPROVED <28 JAN 2004 by buchant0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SIAM KRAFT, EXIM CREDIT 2336 (SKPC)  
**TAGS:** ETRD, US, TH, OPIC, XMB, (STAVE, THOMAS C)  
**To:** BANGKOK  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006